

Management's Discussion and Analysis

The following discussion and analysis is intended to serve as an overview of the County's financial activities for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with the letter of transmittal, which begins on page i, and the financial statements, which begin on page 10.

Financial Highlights

- Douglas County's assets exceeded its liabilities at the end of the current fiscal year, by \$345,482,908 (net assets). Of this amount, \$77,375,495 (unrestricted net assets) may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's overall financial position decreased by \$21,047,943. This decrease is primarily attributable to a significant decrease in federal funding.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund is \$61,155,131 or 230% of total General Fund expenditures and transfers to other funds.

Overview of the Financial Statements

This discussion is intended to serve as an introduction to Douglas County's basic financial statements. The County's basic financial statements are comprised of three components:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

The report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to private-sector business reporting.

The *Statement of Net Assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or declining.

The *Statement of Activities* presents information showing how the County's net assets changed during the most recent fiscal year. Changes in net assets are reported when the underlying events giving rise to the change occur, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items, for example, uncollected property taxes and earned but unused vacation leave, which will result in cash flows in future fiscal periods.

Both government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include general government, public safety, highways and streets, sanitation, health and welfare, culture and recreation, conservation and education. The Salmon Harbor facility operation is a business-type activity of the County.

The government-wide financial statements include not only the County itself (known as the primary government), but also a legally separate Hospital Facility Authority for which the County is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself. The 4-H Extension District, although also legally separate, functions for all practical purposes as a department of the County, and therefore has been

included as an integral part of the primary government. The government-wide financial statements can be found beginning on page 10 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Douglas County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. A reconciliation of the governmental funds balance sheet to the government-wide statement of net assets and a reconciliation of the governmental funds statement of revenues, expenditures and changes in fund balance to the government-wide statement of activities have been included in this report.

The County maintains various individual governmental funds for GAAP (generally accepted accounting principles) basis presentation. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Public Works Fund, Public Safety Fund, Health and Social Services Fund, Title III Fund, and Industrial Development Fund all of which are considered to be major governmental funds. Data from the remaining governmental funds (non-major governmental funds) are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report. The County adopts an annual appropriated budget for all funds. A budgetary comparison schedule has been provided for each fund to demonstrate compliance with this budget. The basic governmental fund financial statements and respective reconciliations can be found beginning on page 12 of this report.

Proprietary funds. The County maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses an enterprise fund to account for the operation of the Salmon Harbor facility. Internal service funds are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for its risk management activities and fleet operations. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, but in greater detail. The enterprise fund financial statements provide information on the operation of the Salmon Harbor facility. The Salmon Harbor Fund is considered to be a major fund. The internal service funds are also combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the proprietary and internal service funds is provided in the form of combining statements and fund schedules elsewhere in this report. The basic proprietary fund financial statements can be found beginning on page 16 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are not available to support County programs. The accounting used for fiduciary funds is similar to that used for proprietary funds. The basic fiduciary fund financial statement can be found on page 19 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 20 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the County's progress in funding its obligation to provide pension benefits to its employees; postemployment healthcare benefits to retirees; and budgetary comparative schedules for the County's major funds. Required supplementary information can be found beginning on page 44 of this report.

Combining and individual fund statements and schedules for nonmajor funds can be found immediately following the required supplementary information.

Government-wide Financial Analysis

Net assets, over time, may serve as a useful indicator of a government's financial position. Douglas County's assets, including its capital assets net of depreciation, exceeded its liabilities by \$345,482,908 at the end of the current fiscal year.

The largest portion of the County's net assets (51%) reflects its investment in capital assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Approximately 26% of the County's net assets represent resources that are subject to external restrictions on how they may be used. The remaining balance (23%) of unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors.

Net assets decreased \$21,047,943 during fiscal year 2012. This is due primarily to a decrease in federal funding.

Douglas County's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	6/30/2012	6/30/2011	6/30/2012	6/30/2011	6/30/2012	6/30/2011
Cash and investments	\$188,100,976	\$197,527,020	\$836,793	\$763,820	\$188,937,769	\$198,290,840
Receivables	8,378,938	9,272,311	38,143	180,917	8,417,081	9,453,228
Internal balances	81,874	135,259	(81,874)	(135,259)		
Other assets	3,106,947	3,655,583	20,174	24,205	3,127,121	3,679,788
Interfund loan balances	2,361,529	2,361,529	(2,361,529)	(2,361,529)		
Capital assets	171,594,324	181,109,374	5,133,883	5,377,687	176,728,207	186,487,061
Total assets	373,624,588	394,061,076	3,585,590	3,849,841	377,210,178	397,910,917
Noncurrent liabilities	20,471,539	17,228,171			20,471,539	17,228,171
Other liabilities	11,214,166	14,078,816	41,565	73,079	11,255,731	14,151,895
Total liabilities	31,685,705	31,306,987	41,565	73,079	31,727,270	31,380,066
Net assets:						
Invested in capital assets	171,594,324	181,109,374	5,133,883	5,377,687	176,728,207	186,487,061
Restricted	91,379,206	95,615,875			91,379,206	95,615,875
Unrestricted	78,965,353	86,028,840	(1,589,858)	(1,600,925)	77,375,495	84,427,915
Total net assets	\$341,938,883	\$362,754,089	\$3,544,025	\$3,776,762	\$345,482,908	\$366,530,851

Douglas County's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	6/30/2012	6/30/2011	6/30/2012	6/30/2011	6/30/2012	6/30/2011
Revenues:						
Program revenues:						
Charges, fees and fines	\$13,874,858	\$15,163,096	\$1,744,503	\$1,619,753	\$15,619,361	\$16,782,849
Operating grants and contributions	52,819,019	61,837,105	203,700	251,180	53,022,719	62,088,285
Capital contributions				399,178		399,178
General revenues:						
Property taxes	8,823,504	8,523,575			8,823,504	8,523,575
Grants and contributions not restricted to specific programs	10,477,888	19,282,732			10,477,888	19,282,732
Unrestricted investment earnings	1,623,762	1,844,199	9,312	12,371	1,633,074	1,856,570
Total revenues	87,619,031	106,650,707	1,957,515	2,282,482	89,576,546	108,933,189
Expenses:						
General government	19,309,705	21,070,812			19,309,705	21,070,812
Public safety	25,118,005	23,853,599			25,118,005	23,853,599
Highways and streets	22,313,834	21,653,779			22,313,834	21,653,779
Sanitation	5,268,463	2,869,455			5,268,463	2,869,455
Health and welfare	27,000,903	27,857,819			27,000,903	27,857,819
Culture and recreation	6,140,440	6,578,149			6,140,440	6,578,149
Conservation	1,204,324	1,165,109			1,204,324	1,165,109
Education	2,020,090	3,651,014			2,020,090	3,651,014
Interest on long-term debt	63,650	68,137			63,650	68,137
Recreational facility			2,185,859	2,070,234	2,185,859	2,070,234
Total expenses	108,439,414	108,767,873	2,185,859	2,070,234	110,625,273	110,838,107
Increase (decrease) in net assets before gain on sale of assets	(20,820,383)	(2,117,166)	(228,344)	212,248	(21,048,727)	(1,904,918)
Gain on sale of assets	5,177	20,281	(4,393)		784	20,281
Increase (decrease) in net assets	(20,815,206)	(2,096,885)	(232,737)	212,248	(21,047,943)	(1,884,637)
Net assets - July 1	362,754,089	364,850,974	3,776,762	3,564,514	366,530,851	368,415,488
Net assets - June 30	\$341,938,883	\$362,754,089	\$3,544,025	\$3,776,762	\$345,482,908	\$366,530,851

Governmental activities. Governmental activities decreased net assets by \$20,815,206. The primary contributing factor to this decrease was a decrease in federal funding.

Business-type activities. Business-type activities decreased net assets by \$232,737. The decrease was primarily the result of a decrease in federal and state funding.

Financial Analysis of County Funds

The County uses fund accounting to ensure compliance with finance-related legal requirements.

Governmental funds. The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2012, the County's governmental funds reported combined ending fund balances of \$179,463,606, a decrease of 5% from the prior year. Of this ending balance, 51% is restricted for specific uses, 13% is committed or assigned to specific purposes, 2% is nonspendable because it is in the form of inventories and deposits. The remaining 34% is unassigned.

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$61,155,131, while the total fund balance was \$68,140,502. The current unassigned fund balance represents 230% of the total general fund expenditures and transfers to other funds.

Over forty percent of the General Fund revenues in fiscal 2012 came from the federal "Secure Rural Schools and Community Self-Determination Act" first passed by Congress in October, 2000. In 2008, legislation was passed reauthorizing the Act but with reduced funding. This Act replaced the timber revenues from logging on federal timber lands the County relied on as a primary source of General Fund support for many years. The Act was extended in July, 2012 for one additional year. This one year extension will provide approximately \$8.6 million to the County's General Fund in 2013. This funding is approximately \$16 million less to General Fund than the Act was providing before the 2008 reauthorization was passed. The Board of County Commissioners continues to work with elected officials to find funding solutions for Douglas County.

The Public Works Fund receives nearly forty percent of its revenue from the "Secure Rural Schools and Community Self Determination Act". The fund balance decreased by \$4,566,785 in fiscal year 2012. This fund is estimated to receive \$5.4 million in 2013 under the Act's one-year reauthorization. This is down from the \$14.5 million funding provided by the Act prior to the 2008 reauthorization that included funding reductions. Public Works revenues are restricted to use for construction and maintenance of County roads and bridges. At the end of the current fiscal year, the nonspendable balance in this fund was \$2,248,006 and the restricted balance was \$78,601,780.

The Public Safety Fund balance decreased \$143,417 from \$1,126,231 in fiscal year 2011 to \$982,814 in fiscal year 2012. The decrease is primarily due to an increase in personnel costs and the cost to upgrade and maintain the County's communications system.

The Health and Social Services Fund balance increased \$119,633 to \$7,123,886. The increase is from decreased spending in this fund.

The Title III Fund balance increased \$360,131 in 2012 from \$4,282,457 to \$4,642,588. The increase is from decreased spending in this fund.

The Industrial Development Fund balance increased \$252,775 to \$4,361,400. The increase is from additional State lottery revenues.

Proprietary funds. The County's proprietary funds provide the same type of information found in the government-wide financial statements, for its enterprise fund (Salmon Harbor). Salmon Harbor facility includes an R.V. resort, dry camping, fueling stations, docks for fishing and boat moorage.

General Fund Budgetary Highlights

Total appropriations in the final amended General Fund budget were \$157,220 higher than the original budget. This increase was the result of unanticipated grant revenues from state and federal sources added through a supplemental budget.

Several departments in General Fund show actual expenditures under budget variances larger than anticipated because of layoffs related to revenue shortfalls and management's choices not to fill positions when they became vacant. County departments have been asked by the Board of Commissioners to find ways to work more efficiently with less and prepare for continued reductions in departmental budgets due to the loss of federal funding.

Capital Asset and Debt Administration

Capital assets. The County's investment in capital assets for its governmental and business-type activities as of June 30, 2012 was \$176,728,207 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, roads and bridges, park and recreational facilities. The County's net decrease (additions, deductions and depreciation) in capital assets was \$9,758,854.

Capital Assets at Year-End (net of depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Land	\$12,132,028	\$12,132,028	\$921,221	\$921,221	\$13,053,249	\$13,053,249
Buildings & improvements	25,275,728	25,854,109	4,124,653	4,354,161	29,400,381	30,208,270
Furniture and equipment	4,725,515	5,953,537			4,725,515	5,953,537
Vehicles & heavy equipment	6,535,430	6,875,277	88,009	102,305	6,623,439	6,977,582
Dams	19,754,924	20,131,209			19,754,924	20,131,209
Infrastructure	98,072,525	102,060,220			98,072,525	102,060,220
Construction in progress	5,098,174	8,102,994			5,098,174	8,102,994
Totals	\$171,594,324	\$181,109,374	\$5,133,883	\$5,377,687	\$176,728,207	\$186,487,061

The following table reconciles the changes in capital assets:

	Governmental Activities	Business-Type Activities	Total
Beginning balance	\$467,294,783	\$10,189,680	\$477,484,463
Additions	2,240,716	16,845	2,257,561
Reductions	(1,251,878)	(33,814)	(1,285,692)
Accumulated depreciation	(296,689,297)	(5,038,828)	(301,728,125)
Ending balance	<u>\$171,594,324</u>	<u>\$5,133,883</u>	<u>\$176,728,207</u>

Additional information on the County's capital assets can be found in note 3C beginning on page 31 of this report.

Long-term Debt. At June 30, 2012, the County had \$1,328,916 in notes payable for industrial development within the County. This is \$137,732 more than the \$1,191,184 owing June 30 of the prior year due to regularly scheduled payments on current loans of \$87,268 as well as the addition of a new \$225,000 loan in 2012. Douglas County has no outstanding bonded debt.

Additional information on the County's long-term debt can be found in note 3F beginning on page 34 of this report.

Economic Factors and Next Year's Budgets and Rates

- The single most significant source of county revenue was from the federal "Secure Rural Schools and Community Self-Determination Act", (safety net) which provided annual revenue to replace declining timber harvest revenues. The Act was reauthorized at a progressively reduced funding level for another four years in October, 2008. In July, 2012, the Act was reauthorized for one additional year at 95% of the prior year's funding.
- The County's unemployment rate for the month of June 2012 was 12%. While this compares unfavorably to the state average unemployment rate of 8.5% which is higher than the national average of 8.2%, the steady decline in annual unemployment rates, from 17.2% in 2009 to 12% in 2012, may indicate the economy has begun a slow recovery.
- During the last few years, the increasing pension cost of the Oregon Public Employees Retirement System (PERS) has had a significant impact on County personnel costs. PERS has again notified the County that rates beginning July 1, 2013 will increase from 5.8% to 6.4% of payroll.
- The County has a permanent tax rate of \$1.11 per thousand of assessed valuation. This permanent tax rate was established with the passage of statewide constitutional property tax limitation measures during a time when the County was receiving sufficient timber harvest revenues to support many County services without property tax assistance. Also, as part of the statewide measures, the increase in assessed value was limited to 3% per year, or market value, whichever is lower. It would be very difficult, if not impossible, for the County to replace a significant portion of the loss of federal funding with property taxes. Currently, property taxes represent about 10% of overall County revenues and are committed, in whole, to support public safety services.
- The change in population of the County the past year was negligible.

These are among the factors that were considered in preparing the County's budget for fiscal year 2013.

Requests for Information

This financial report is designed to provide a general overview of Douglas County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Office of Management and Finance, 1036 SE Douglas Ave., Roseburg, Oregon 97470.